

State of Arizona Department of Financial Institutions

“AZDFI”



Friday, February 16, 2007

presented to the:

Women's Council of Realtors
Arizona South East Valley Regional Chapter

Felecia Rotellini, Superintendent

Who We Regulate:
Financial Institutions A.R.S. § 6-101(8)

- Banks (State Chartered)—**32**
- Credit Unions (State Chartered)—**28**
- Savings & Loan Associations
(State Chartered) 0
- Independent Trust Companies—**5**
- Consumer Lenders—**22**
- Financial Institution Holding Companies 0
- International Banking Facilities 0

Financial Enterprises

- Advance Fee Loan Brokers—3
- Collection Agencies—559
- Debt Management Companies—32
- Deferred Presentment Companies—98
- Money Transmitters—62
- Motor Vehicle Dealers—654
- Premium Finance Companies—40
- Pre-need Funeral Trusts—45
- Sales Finance Companies—456

Mortgage Lending Industry

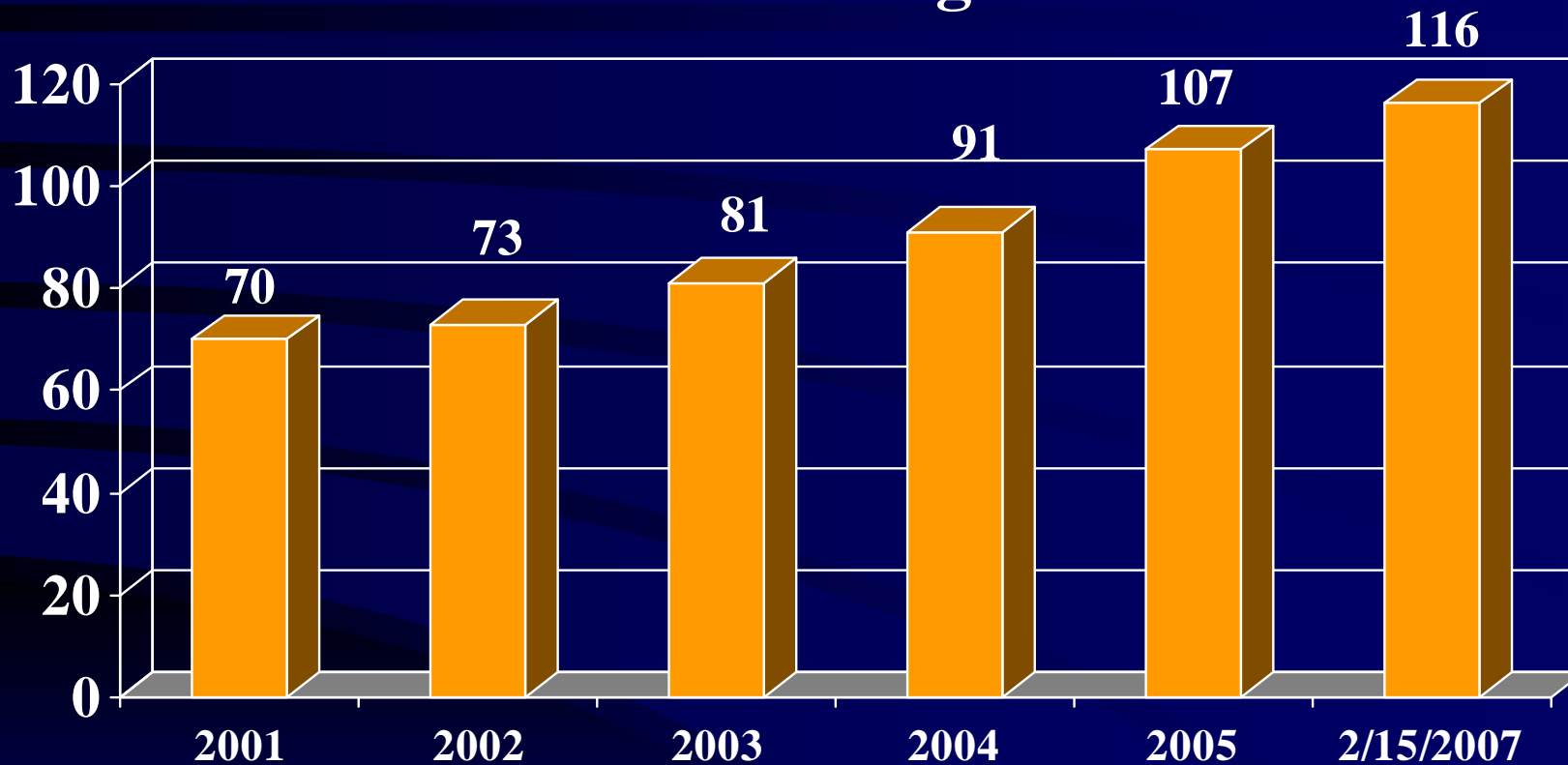
- Commercial Mortgage Bankers—**10**
- Escrow Agents—**116**
- Mortgage Bankers—**622**
- Mortgage Brokers—**1,403**

All Licenses Current as of February 15, 2007

AZDFI

Growth Home Offices

Escrow Agent



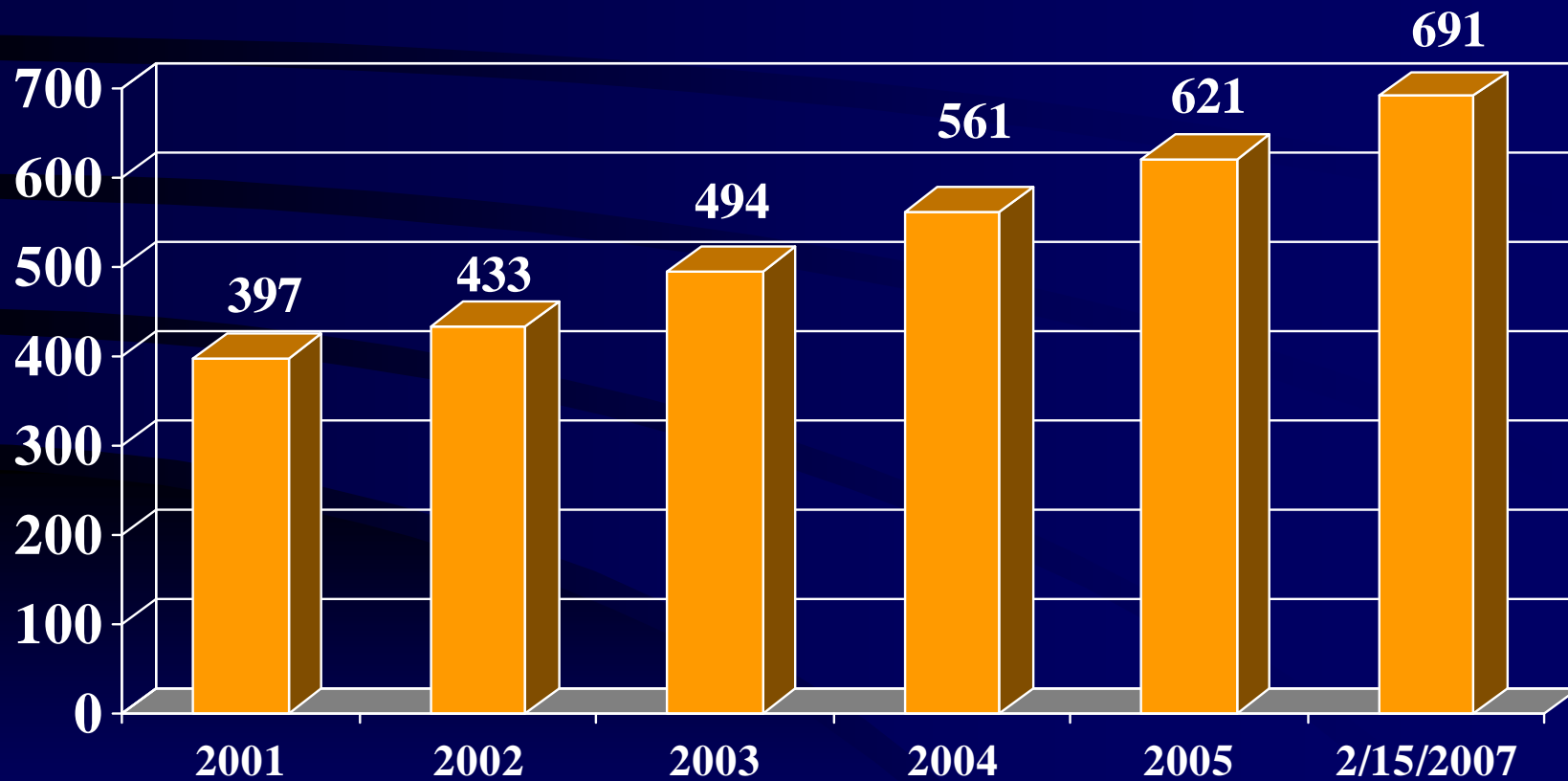
Yearly Average Increases:

2001-02 4.29% 2002-03 10.69% 2003-04 12.35% 2004-05 17.58% 2005- present 9.35%

Overall Increase from 2001 to Present: 67.14%

AZDFI Growth Branch Offices

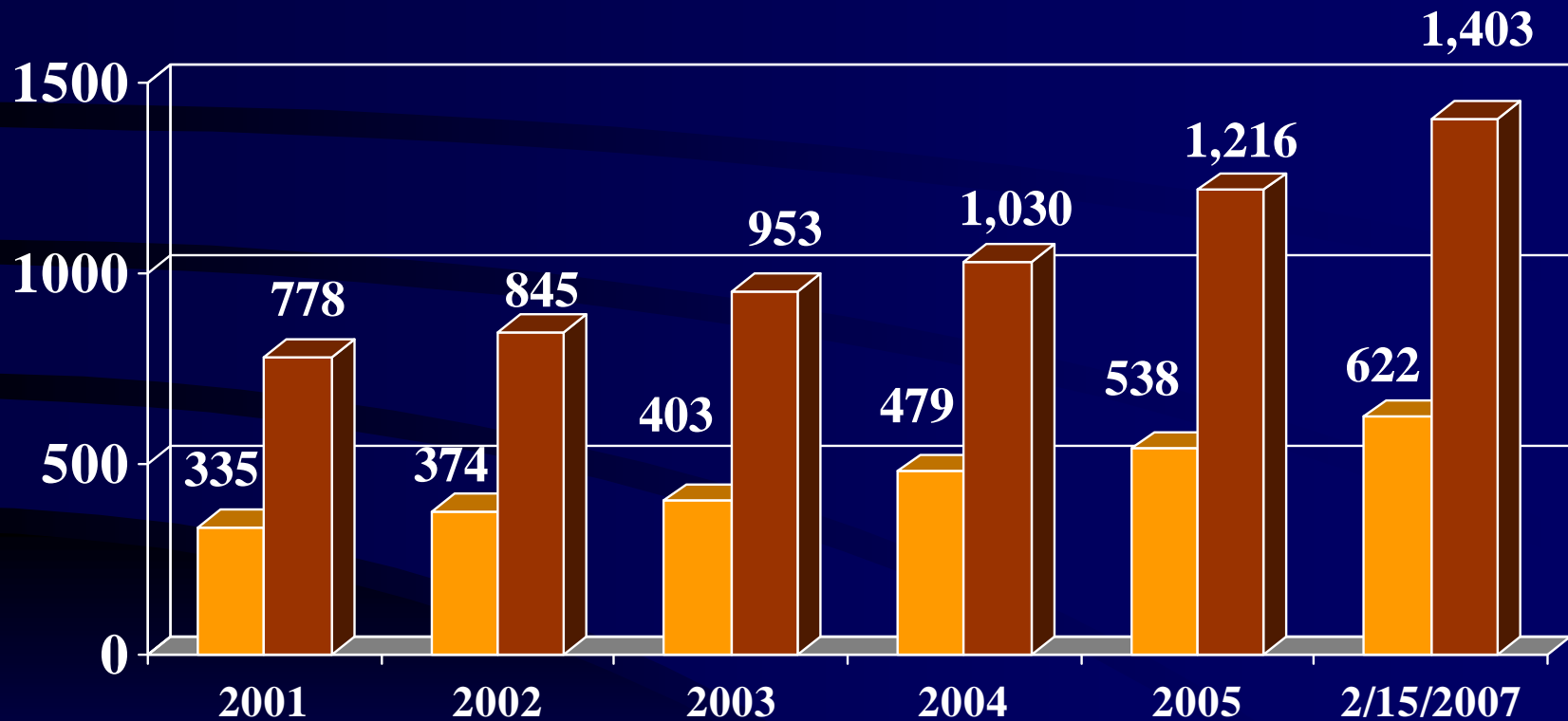
■ Escrow Agent



AZDFI

Growth Home Offices

■ Mortgage Banker (BK) ■ Mortgage Broker (MB)



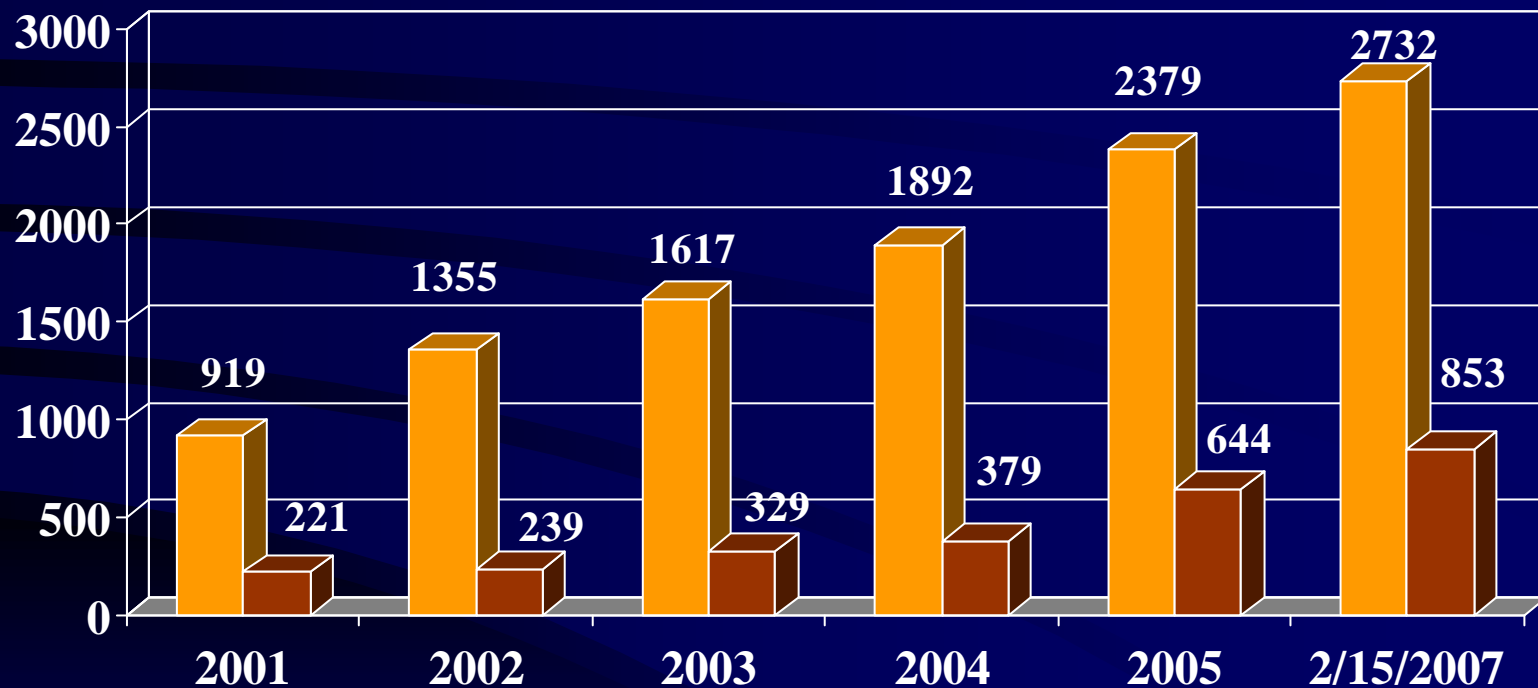
Yearly Average Increase:

Mortgage Bankers = 13.1%

Mortgage Brokers = 12.5%

AZDFI Licensing Branches

■ Mortgage Banker (BK) ■ Mortgage Broker (MB)



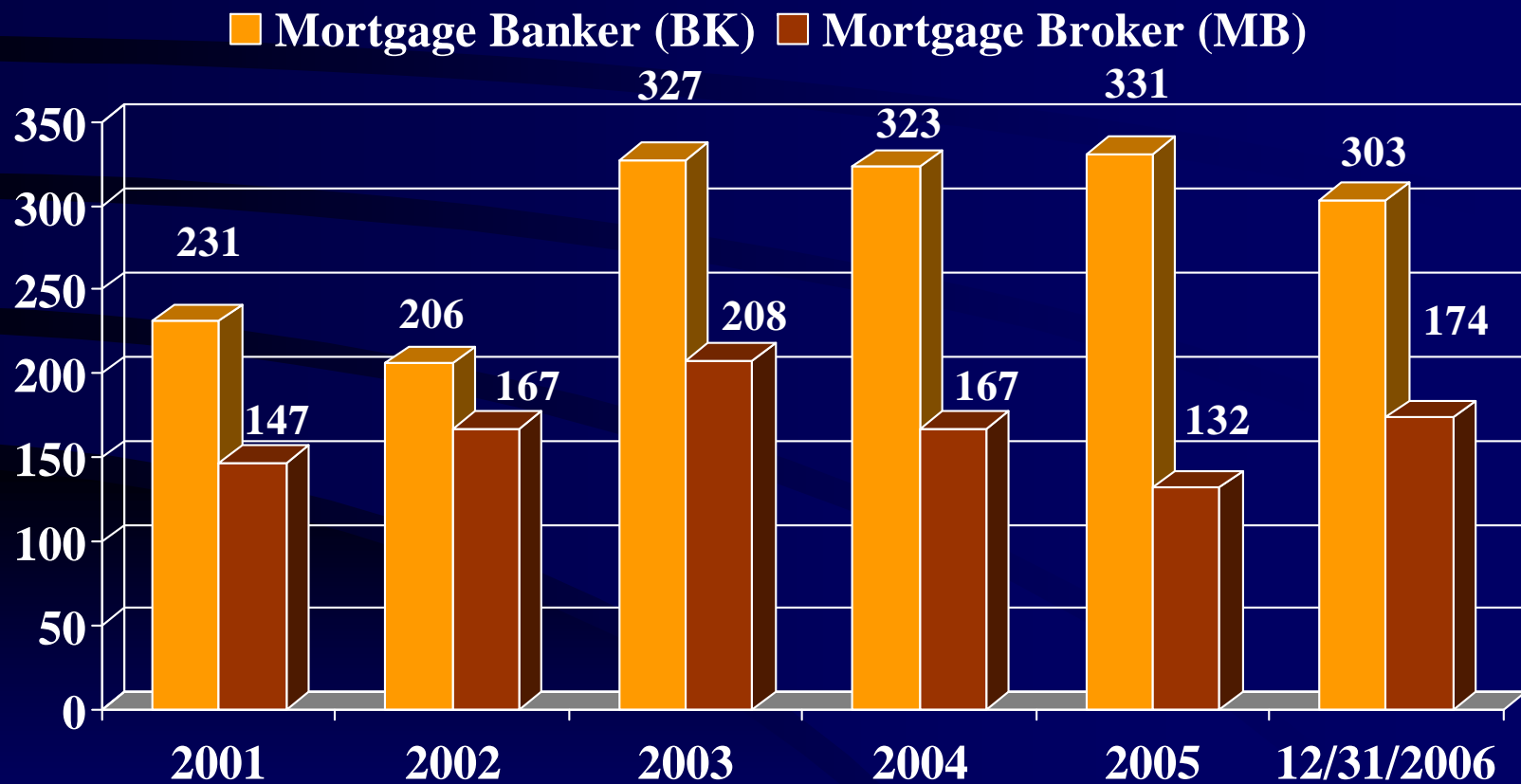
Combined Total Home Offices and Branches for Bankers and Brokers:

12/31/2001	2,253
2/15/2007	5,610

AZDFI

Consumer Affairs

Number of Complaints Closed



AZDFI

Consumer Affairs

Number of Complaints Closed



2006 Complaint Totals and Percentages

Escrow Agents	157	11.85%
Collection Agencies	385	29.06%
Mortgage Banker	357	26.94%
Mortgage Brokers	218	16.45%

Total 1,117 ~ 85.00%

**~ 56% of all DFI Complaints involve:
Escrow Agents, Mortgage Banker, and
Mortgage Brokers**

Real Estate Related Fraud

- **Property Flipping**
- **Equity Skimming / Foreclosure Rescue Scams**
- **Theft by Deception**
- **Money Laundering**
- **Cash Back**
- **Lease Back**
- **Shotgun**

“80% of all reported fraud losses involve collaboration or collusion by industry insiders”—FBI

Real Estate Related Fraud

Property Flipping—

Sales contract with straw buyer for more than original listing or value.

Property value inflated with fraudulent appraisal.

Buyer obtains loan by deception.

Seller obtains original asking price.

Straw buyer defaults and the lender takes the loss.

Real Estate Related Fraud

Foreclosure Rescue Scam—

Phantom help—the owner is “sold” some type of representation or services that never materialize or are worthless.

Bailout—the owner surrenders title and the rescuer stalls the foreclosure. The borrower then rents with the promise of buying back, but is set up for failure.

Bait and Switch—the owner surrenders (“quitclaims”) property believing that they are completing paperwork designed to help them.

Real Estate Related Fraud

Cash Back—

The buyer/borrower inflates the price of the home. The purchase contract shows an inflated price with an addendum indicating that the seller, at the close of escrow, will “credit to the buyer” the inflated amount for no reason or for various home improvements that are not made. The addendum is removed from the underwriting file by the loan officer.

The wholesaler, who buys the loan on the secondary market, does not know about the addendum and closes on the over-inflated value, thus, funding the fraud.

Real Estate Related Fraud

Lease Back—

A purchase contract provides that the seller will sell the house to the buyer and then lease it back for a period of time. The seller has no intention of living in the house, but rather to give a lump sum back to the buyer at closing.

The home value is inflated to cover the lump sum of all lease payments the seller will get at closing.

Real Estate Related Fraud

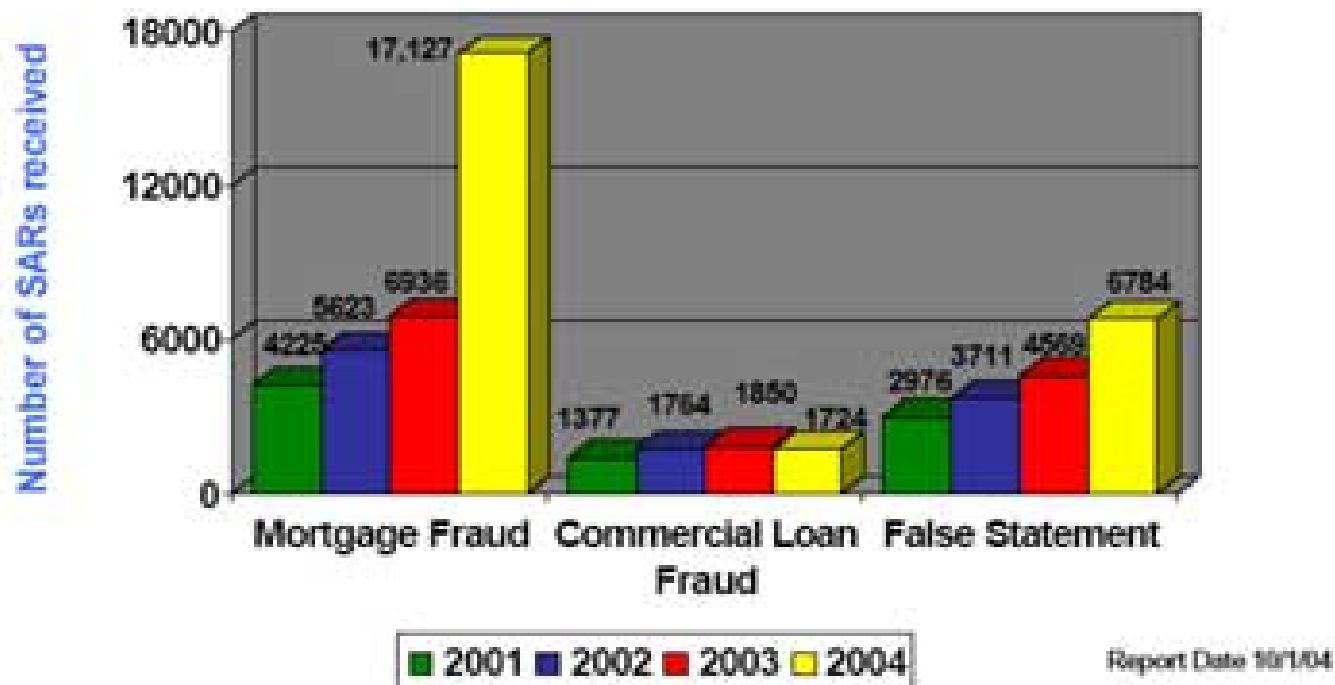
Shotgun—

Four or more loan packages for the same borrower, on different properties, are submitted to four different lenders at the same time. None of the lenders know about the other loans because all information is omitted from the loan applications.

The borrower's credit report will not show any other loans and the underwriter for each loan will qualify the borrower. This approach is coupled with a cash back scheme.

Suspicious Activity Reports (“SARS”) F.B.I.

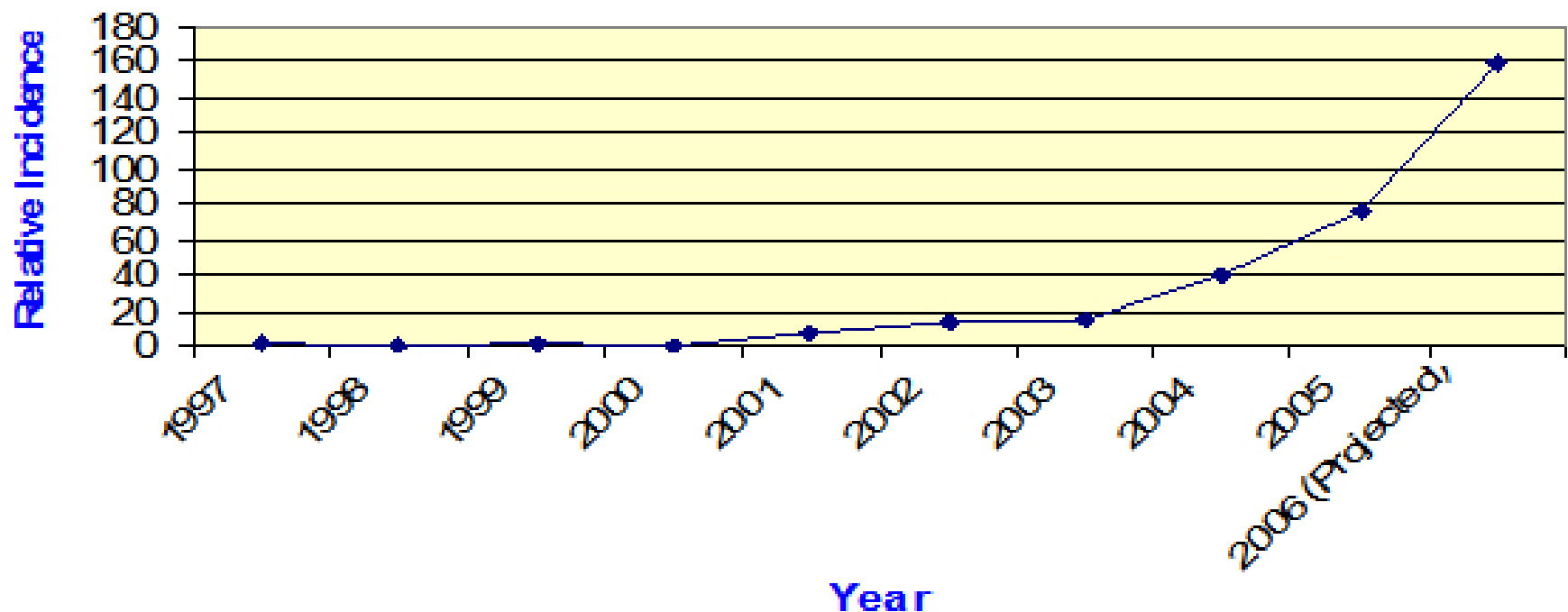
NUMBER OF VIOLATIONS OF MORTGAGE RELATED FRAUD SARS



http://www.fbi.gov/publications/financial/fcs_report052005/fcs_report052005.htm

Suspicious Activity Reports (“SARS”) FinCEN

Relative Filings by Year of all SAR Types Describing Money Laundering Associated with Commercial Real Estate



<http://www.fincen.gov/CREassessment.html>

SB 1221 Residential Mortgage Fraud

SB 1221 provides an efficient path from investigation to prosecution, conviction, and sentencing of persons engaged in the specific crime of mortgage fraud.

SB 1221 Residential Mortgage Fraud

Why will a specific mortgage fraud law help prosecutors?

- **Because jurors find it difficult to comprehend the advance schemes in mortgage fraud and have more difficulty identifying it with theft.**
- **To prove mortgage fraud you have to show "theft by deception" which is sort of a two step process.**
- **Specific mortgage fraud laws first identify what the theft is so the prosecutor doesn't have to build that part of the case. If you commit these specific acts, the Legislature has said, "this is fraud, punishable by these penalties."**
- **Facilitates plea agreements.**

SB 1221 Residential Mortgage Fraud

Here is what the FBI said in December of 2006:

The latest statistics from the Federal Bureau of Investigation confirm that mortgage fraud is on the upswing. "We can't find a chart that doesn't show up in a big way," Special Agent Bill Stern said at SourceMedia's Mortgage Fraud Conference in Las Vegas.

The FBI's mortgage fraud coordinator in Washington said the trend is moving away from rogue individuals who pull off the scams and toward members of organized crime. "Mortgage fraud is now a criminal enterprise that puts dollars in the hands of people who also are involved in such other crimes as drugs, murders, and gangs.

As of early December, the number of suspicious activity reports concerning mortgage fraud is up 62%, from 21,994 to 35,617.

As of the first week of December, 54% of the losses attributed to mortgage fraud were more than \$1 million.

Mortgage Fraud Task Force

Objectives:

- To prevent multiple investigations or duplicative efforts involving the same “targets”
- To utilize resources of different agencies
- To combine resources into one centralized area
- To utilize and maximize expertise and skills of all agencies
- To pursue administrative action, removal, and the prosecution of bad actors

Mortgage Fraud Task Force

- State Agencies
 - Arizona Department of Financial Institutions
 - Arizona Attorney General's Office
 - Arizona Department of Real Estate
 - Arizona Board of Appraisal
 - Arizona Department of Housing
 - Arizona Corporation Commission
 - Securities Division

Mortgage Fraud Task Force

- County and Law Enforcement Agencies
 - Maricopa County Attorney's Office
 - Phoenix Police Department
 - Mesa Police Department
 - Scottsdale Police Department
 - U.S. Attorney General
 - Federal Law Enforcement

Contact Information

**If you have a complaint, visit www.azdfi.gov
to fill out a complaint form.**

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